



## CENTRAL BANK OF NIGERIA

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### EXPOSURE DRAFT THREE-TIERED KNOW YOUR CUSTOMERS (KYC) REQUIREMENT PROGRAM

Access to basic banking facilities and other financial services is necessary for socio-economic growth of Nigeria. It is important that the socially and financially disadvantaged persons should not be excluded from opening accounts or obtaining other financial services merely because they do not possess means to identify themselves.

The CBN has, however, developed a **three-level tiered KYC** regime for banks and other financial institutions, under its regulatory purview, to promote financial inclusion. Please find attached the exposure draft of the proposed tiered KYC requirement for comments/inputs from stakeholders for CBN consideration. The exposure draft can be accessed at the CBN website at [www.cbn.gov.ng](http://www.cbn.gov.ng).

Hard copies of responses on the document should be sent to the Director, Financial Policy and Regulation Department, Central Bank of Nigeria, Abuja, while soft copies should be e-mailed to [uaobot@cbn.gov.ng](mailto:uaobot@cbn.gov.ng) and [abisah@cbn.gov.ng](mailto:abisah@cbn.gov.ng) within **one month** of the date of this document.

A handwritten signature in blue ink, appearing to read 'Chris O. Chukwu'.

**CHRIS O. CHUKWU**  
**DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT**

## **PROPOSED THREE-TIERED KYC REQUIREMENT APPROACH**

### **1.0 INTRODUCTION**

- Available statistics indicate that about 46.3% of adult Nigerians do not have access to financial services. Various factors that account for this level of financial exclusion include low level of bank branches and cumbersome account opening requirements/procedures etc.
- It is worthy to note that the enforcement of full account opening procedures often excludes some segments of the population from financial services and this keeps them out of the formal economy, indirectly promoting the informal sector. This is particularly so among the lower income earners, poor and socially disadvantaged segment of the population, majority of who live in the rural areas.
- It is trite to state that in Nigeria, many people lack formal means of identification. Where they want to obtain such, the procedures to acquire them are too cumbersome and expensive, effectively out of their financial means. This inadvertently makes financial services go beyond the reach of the poor. Therefore, to continue to maintain the same level of KYC requirements for all segments of the population, as currently required, encourages prevalence of informal financial systems which in turn undermines the AML/CFT objective.
- It was in recognition of the inequality in social and economic circumstances of the various segments of the Nigerian population that Paragraphs **2.6.1.5.6-12** of CBN AML/CFT Regulation, 2009 (as amended) provide broad principles for addressing the challenge, thus:
  - ✓ Allow a third party (such as clergymen, village/clan heads, headmasters, etc. with acceptable means of identity) to identify the socially disadvantaged persons;
  - ✓ Require financial institutions to formulate written policies on financially disadvantaged customers and prescribe the type of documents acceptable for their identification to be provided by third parties;
  - ✓ Require financial institutions to adopt a risk based approach on the operation of this category of accounts and customers; and

- ✓ Require financial institutions to conduct enhanced monitoring of such accounts, customers and the third parties that identified them and render monthly returns to CBN and NFIU on their operations.
- Recommendation One of the revised FATF 40 Recommendations permits countries to allow financial institutions and Designated Non-Financial Businesses and Professions (DNFBPs) to apply simplified customer due diligence (CDD) measures in respect of lower risk customer category.
- Consequently, in furtherance of the objective of enhancing financial inclusion and access, the CBN has developed the proposed tiered KYC requirement regime for compliance by banks and other financial institutions under its regulatory purview.

**2.0 OBJECTIVE OF THE PROPOSED TIERED KYC APPROACH**

The proposed “tiered” KYC approach is intended to be used to implement flexible account opening requirements for **low-value and low-risk accounts** that are subject to caps and restrictions as the amount of transactions increases. This means that account opening requirements will increase progressively as restrictions on transactions are eased. However, the main objective of the proposed approach is to promote and deepen financial inclusion.

**3.0 STRUCTURE OF THE PROPOSED TIERED KYC APPROACH**

The average monthly deposit cap in each account would be set in multiples of **N18, 000** in the low-value and low-risk levels. This approach ensures that the accounts will remain attractive to customers of different socio-economic levels while keeping under close watch the risk involved. The table shows the caps on deposits on the low-value and low-risk accounts as follows:

<b>PROPOSED THREE LEVELS TIERED KNOW YOUR CUSTOMER (KYC) APPROACH</b>			
	<b>Description and characteristics</b>	<b>Amount /Threshold Limitation</b>	<b>Customer Identification requirements</b>
<b>LEVEL ONE</b>	<p><b>Low Value Accounts</b></p> <p>✓ Non-face to face account opening process is allowed.</p>	<p>✓ It is limited to a maximum single deposit amount of <b>N18, 000</b> and maximum cumulative balance of</p>	<p>✓ Basic customer information such as name, place and date of birth,</p>

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	<ul style="list-style-type: none"> <li>✓ They are subject to close monitoring by the financial institutions and less supervision by Bank Examiners.</li> <li>✓ The accounts can be opened at branches, the financial institution's websites and through banking agents, etc.</li> <li>✓ No minimum amount is required for opening of account.</li> </ul> <p><b>Main characteristics:</b></p> <ul style="list-style-type: none"> <li>✓ Its use is restricted to deposit and withdrawal operations by account holder.</li> <li>✓ Not linked to mobile phone accounts (no fund transfers are allowed).</li> <li>✓ Operation valid only in Nigeria.</li> <li>✓ Funds cannot be transferred to other accounts.</li> </ul>	<b>N90, 000.</b>	<p>gender, address, etc. may be provided electronically.</p> <ul style="list-style-type: none"> <li>✓ No hard copies are required.</li> <li>✓ Customer information needs not be verified.</li> </ul>

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<b>LEVEL TWO</b>	<p><b>Low-Risk Accounts</b></p> <ul style="list-style-type: none"> <li>✓ These accounts can be opened at any branch of a bank by agents for enterprises and used for mass payroll or by the account holder.</li> <li>✓ Basic customer information is required at this level. Account opening can be conducted face-to-face (directly) at bank branches and by banking agents.</li> <li>✓ It can be contracted by phone or at the banking institution website. It is subject to further ID verification and monitoring by financial institutions.</li> <li>✓ The accounts may be linked to a mobile phone.</li> <li>✓ They may be used for funds transfers.</li> <li>✓ Where an account is opened remotely, a 12-month grace period</li> </ul>	<ul style="list-style-type: none"> <li>✓ Maximum single deposit of <b>N36, 000 and a maximum cumulative balance of N108, 000 are allowed.</b></li> <li>✓ Where cross-checking of client's ID information is not conducted within a 12-month period, the maximum single deposit allowed would be limited to N18, 000 and the use of the account restricted within Nigeria only.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Basic customer information such as name, place and date of birth, gender, address, etc. may be provided electronically.</li> <li>✓ No hard copies of documents may be required.</li> <li>✓ Customer information obtained must match similar information contained in the official data-bases.</li> </ul>



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	would be granted to customers/ financial institutions to complete KYC procedure.  ✓ No amount is required for opening of accounts.		
<b>LEVEL THREE</b>	<b>Ordinary Accounts</b>  ✓ Banks are required to obtain, verify and maintain copies of all the required documents for opening of accounts.  ✓ Account is to be opened at the bank branches by physical presence of the prospective customer or the agent.  ✓ Minimum amount is required to open this account.	✓ No Limit is placed on cumulative balance.	✓ The customers must fulfill all KYC requirements as required by CBN AML/CFT Regulation, 2009 (as amended).

#### **4.0 ABOUT THE PROPOSED APPROACH**

It is important to note that **only maximum deposits and balances are specified for the low-value and low-risk categories of accounts.** In compliance with and in the spirit of the CBN monetary policy and financial inclusion, **there shall be no minimum opening amount for accounts in levels 1-2 accounts.**

In addition to the proposed limits and caps, the additional safeguards to further reduce the risk of money laundering & financing of terrorism **include account monitoring by the financial institutions for suspicious transaction.** To this end, financial institutions are required to report to the Nigerian Financial Intelligence Unit (NFIU) any suspicious transactions.

Also, financial institutions are required to **have AML/CFT solutions in place that will monitor the various thresholds.** All accounts, no matter how low the transaction or the risks, must be subjected to continuous suspicious transactions monitoring by financial institutions and to determine when incremental KYC requirements need to be provided by the customers.

To facilitate the effective implementation of the proposed regime and achievement of the objective of financial inclusion, **the tiered KYC approach envisages the use of bank agents and mobile banking portals to reach a wider segment of the society that otherwise have no access to financial services. This concept, therefore, calls for the introduction of agent-banking in Nigeria as obtainable in other jurisdictions that practice the tiered KYC requirements.**

## **5.0 CONCLUSION**

In conclusion, the above tiered KYC requirement proposal:

- ✓ Is a practical example to implementing risk-based approach to CDD in compliance with **FATF revised Recommendation 1.**
- ✓ The policy will have positive impact in the financial market by making account opening and operation more attractive and appealing to the masses in view of the simpler and fewer requirements involved.
- ✓ Would reduce the administrative cost for banks as it involves online account opening, few paper filing and reporting.